

Sung Nam
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Debt Ceiling Suspension Bill

Kick the can down the road bill. Doesn't fix anything. All it does is increase the debt ceiling come negotiation time until May 18 and allows the FED to continue their security purchases, uninhibited, for the next 3 months, which kept the fixed income people attentive to the outcome of the House GOP, which passed on Friday. Another bandage on a leprous condition, which is eating away at the sustainability of this great country. Mr. Ray Dalio, of Bridgewater, the largest hedge fund in the world, describes the economic cycle in view of business cycles, which happens every decade and credit cycle, which happens every 40-50 years. We are familiar with business cycles, however, few are familiar with credit cycles.

We know after WW2, people started to buy a lot and started to lever up on their purchases, with the advent of revolving credit (credit cards) and with MBS in the 80s under Larry Fink, started to make house mortgages easier to line up. Then in late 90s, people took this to the extreme and took out HELOCs, which is based on the assumed equity on homes, and added debt on debt. I remember asking my brother about HELOCs back when I was in high school and I couldn't understand how these people were going on trips, buying new cars because they had to pay that back someday. When I interned at a multi-family acquisition co., I asked them what will they do if apartment prices start to fall, since they make most of their money on the disposition and they didn't provide an answer.

Then in 2005-2006, home prices started to fall slightly, and the whole credit cycle reached the inflection point and reversed into the deleveraging stage, which we are already in year 6. This of course was for the individual citizens. Now this deleveraging is supposedly happening in the government level, with austerity measures and budget cuts, which we are seeing happening now on Capitol Hill. Lawmakers don't want to deal with this, since their constituents who use lobbyists to make their appeal, wouldn't appreciate budget cuts affecting their bottom line. So what is the rational thing to do? Of course, kick the can down the road.